

**Tennessee Behavioral Health, Inc.**

**For the Period  
January 1, 1997, Through June 30, 1998**

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November 5, 1999

The Honorable Don Sundquist, Governor  
and  
Members of the General Assembly  
State Capitol  
Nashville, Tennessee 37243  
and  
The Honorable John Ferguson, Commissioner  
Department of Finance and Administration  
First Floor, State Capitol  
Nashville, Tennessee 37243-0285

Ladies and Gentlemen:

Pursuant to the agreement between the Comptroller of the Treasury and the Department of Finance and Administration, the Division of State Audit performs examinations of behavioral health organizations participating in the Tennessee TennCare Partners Program under Title XIX of the Social Security Act.

Submitted herewith is the report of the examination of Tennessee Behavioral Health, Inc., for the period January 1, 1997, through June 30, 1998.

Sincerely,

John G. Morgan  
Comptroller of the Treasury

JGM/pn  
99/023  
cc: Joe Keane  
John S. Tighe

State of Tennessee

# Audit Highlights

Comptroller of the Treasury

Division of State Audit

TennCare Partners Report

**Tennessee Behavioral Health, Inc.,**

For the Period January 1, 1997, through June 30, 1998

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## Findings

### **Deficiencies in the Claims Processing System**

TBH has not fulfilled contract reporting and processing efficiency requirements. Errors were discovered in the payment, denial, and copayment calculation of mental health and substance abuse claims. An explanation of benefits was not provided to uninsured members when a copayment calculation was required. TBH does not track outpatient mental health benefits for basic participants in order to perform reassessments (page 12).

### **Inaccurate Annual and Quarterly Statement Reporting**

Equity was overstated \$8,013,542 as of December 31, 1997, because of errors in the annual statement reporting. Equity was understated \$659,660 as of June 30, 1998, because of errors in quarterly statement reporting (page 15).

### **Deficiencies in Encounter Data Reporting**

TBH inadequately reported diagnosis codes as encounter data required by the contract (page 15).

### **Deficiencies in Provider Agreements**

TBH did not include in the provider agreements all requirements specified by the TennCare Partners contract (page 17).

### **Deficiencies in complaints and Appeals Procedures**

TBH's documentation and resolution of participants' complaints and appeals were determined inadequate (page 18).

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"Audit Highlights" is a summary of the report. To obtain the complete report which contains all findings, recommendations, and management comments, please contact

Comptroller of the Treasury, Division of State Audit  
1500 James K. Polk Building, Nashville, TN 37243-0264  
(615) 741-3697

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**TennCare Partners Report  
Tennessee Behavioral Health, Inc.  
For the Period January 1, 1997, through June 30, 1998**

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**TennCare Partners Report  
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For the Period January 1, 1997, Through June 30, 1998**

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**INTRODUCTION**

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**PURPOSE AND AUTHORITY OF THE EXAMINATION**

The terms and conditions for authorizing the TennCare Partners Program, as well as the contracts between the State of Tennessee and the behavioral health organizations (BHOs), require that examinations of the BHOs be conducted by the Tennessee Comptroller's Office. The contract between the Tennessee Department of Finance and Administration and the Comptroller's Office also contains a provision requiring the examinations.

Under their contract with the state, the BHOs have asserted that they are in compliance with stated requirements regarding their provision of services to TennCare Partners participants. The purpose of our examination is to render an opinion on the BHOs' assertions that they have complied with certain financial-related requirements of their contract with the state.

**BACKGROUND**

The TennCare Partners Program, a managed care capitation program for mental health and substance abuse services, was initiated on July 1, 1996, and is designed to function in a manner similar to the TennCare Program. TennCare replaced the existing Medicaid Program on January 1, 1994, with a program of managed health care providing traditional medical services. Prior to July 1, 1996, mental health and substance abuse services were generally funded by grants or fee-for-service payments from the state. Although some grant payments, such as contracts with the Department of Children's Services, to the community mental health centers are unaffected by the TennCare Partners Program, funding for most of the services has shifted to the TennCare Partners Program. Each month, the state pays a capitation rate for each TennCare Partners Program participant to one of the two managed care organizations, referred to as behavioral health organizations (BHOs), that contract with the state to provide mental health and substance abuse services. The BHOs are Premier Behavioral Systems of Tennessee, LLC, and Tennessee Behavioral Health Inc. (TBH).

**TENNCARE PARTNERS PROGRAM PARTICIPANTS**

The assignment of TennCare Partners Program participants to the two BHOs is based upon the participants' enrollment in the TennCare managed care organizations. The managed care organizations and their assigned participants to TBH are as follows:

- Access...Med Plus

- Blue Cross/Blue Shield (in East Tennessee\* and Knox County)
- Preferred Health Partnership
- Prudential Community Care
- TLC Family Care Healthplan
- Blue Care

\*East Tennessee includes the following counties: Anderson, Blount, Campbell, Claiborne, Cocke, Grainger, Hamblen, Jefferson, Knox, Loudon, Monroe, Morgan, Roane, Scott, Sevier, and Union.

The remaining managed care organizations' enrollments are assigned to Premier.

There are two categories of participants in the TennCare Partners Program: priority participants and basic participants. Priority participants include individuals diagnosed as severely and/or persistently mentally ill (SPMI) aged 18 years or older and individuals diagnosed as severe emotional disturbance (SED) under the age of 18. TennCare Partners participants who are not priority participants are referred to as basic participants. Services covered for both the priority and basic participants include inpatient psychiatric hospitalization, outpatient mental health services, substance abuse treatment, psychiatric pharmacy and lab-related services, transportation to mental health and substance abuse services, and specialized crisis services. Additional services covered for the priority population include mental health case management, 24-hour residential treatment, housing/residential care, specialized outpatient and symptom management, and psychiatric rehabilitation services.

An additional category of individuals for which mental health and substance abuse services are covered by the BHOs is judicials. These individuals are not considered enrollees or participants in the BHO plan but are entitled to coverage for services required by the statute or court order under which the individual was referred.

## **RESPONSIBILITIES OF CONTRACTED PARTIES**

The Tennessee Department of Mental Health and Mental Retardation (TDMHMR) is the state agency responsible for administration of the TennCare Partners Program. TDMHMR and the Bureau of TennCare are responsible for verifying the eligibility of participants and for assigning them to and disenrolling them from the TennCare Partners Program.

Specific qualifications and responsibilities with which the behavioral health organization must comply include the following:

1. Maintain service accessibility and availability through the existence of a current statewide network of appropriately licensed and credentialed mental health and substance abuse providers capable of providing 24-hour comprehensive mental health and substance abuse care;
2. Pay or appropriately deny 95% of the total number of clean claims from both contract and noncontract providers within 30 calendar days of receipt, pay or appropriately deny the remaining 5% of the total number of clean claims within the next ten days, and process all claims submitted by contract and noncontract providers within 60 calendar days of receipt;

3. Provide mental health case management in accordance with standards set by TDMHMR;
4. Identify persons in need of clinical related group/target population group assessments, provide these assessments promptly and accurately, and follow up identifications with treatment plans and reassessments as necessary;
5. Manage mental health and substance abuse provider networks; recruit, credential, enroll, train, and manage providers; and maintain positive provider relationships;
6. Provide a responsive grievance and appeals process, both formal and informal;
7. Meet and maintain the administrative requirements of the Tennessee Department of Commerce and Insurance (TDCI) as specifically set forth in the provider risk contract or applicable statute;
8. Establish and maintain adequate risk reserves;
9. Have adequate and appropriate general liability, professional liability, and workers compensation insurance for the protection of clients, staff, facilities, and the general public;
10. Measure and report utilization, cost, quality, and patient satisfaction data through a management information system that supports the specific administrative and clinical decision making required for delivery of mental health and substance abuse services; and
11. Mutually agree to such other requirements as may be reasonably established by TennCare, TDCI, and TDMHMR.

TBH is allowed to retain up to 10% of the monthly capitation amount paid by the Bureau of TennCare as a management fee, with the remainder of the monthly capitation payment available for the payment of covered direct mental health and substance abuse services and premium taxes. Any and all excess administrative costs are borne by TBH. If the actual accrued amount paid by TBH for covered services and premium tax is less than 90% of the amounts paid by the Bureau of TennCare, then TBH shall remit to TDMHMR 100% of the difference.

## **ADMINISTRATIVE ORGANIZATION OF TENNESSEE BEHAVIORAL HEALTH**

Tennessee Behavioral Health Inc. (TBH) was incorporated as a wholly owned subsidiary of Preferred Health Partnership Companies, Inc., which is a wholly owned subsidiary of Covenant. TBH subcontracted with Merit Behavioral Companies of Tennessee (MBCT) to provide administrative services. The subcontract specified a distribution of 51% of the profits to MBCT. Profits were determined by deducting agreed upon direct administrative expenses from 10% of the premiums paid by the Bureau of TennCare. The officers and directors for TBH as of December 31, 1997 were as follows:

### Officers and Directors for TBH

Chris Paterson	David B. Patterson
William T. Rust	Karen N. Ellis, CPA
Randolph Lowery, M.D.	George Riggall
Kenneth Luckmann, M.D.	Marvin Eichorn
Ralph G. Lillard	Steve H. Winters
Richard Stooksbury, Jr.	Joseph N. McDonald
John Milner	

On March 31, 1999, Magellan Health Services, Inc., finalized the acquisition of Tennessee Behavioral Health, Inc.

## **PROVIDER CONTRACTS AND SUBCONTRACTS**

TBH must obtain written approval from TDMHMR for all of its provider contracts and subcontracts. The contract between TDMHMR and TBH requires that TBH contract with the State of Tennessee's five regional mental health institutes. These institutes provide essential inpatient mental health services to the priority population. TBH has contracted with the regional mental health institutes on a per diem basis. Inpatient, intensive outpatient, and partial hospitalization services are also provided by hospitals across Tennessee on a per diem basis. In addition, the contract encourages TBH to contract with community mental health centers (CMHCs). The primary providers of outpatient mental health services for the priority population are the CMHCs located across the state. TBH originally contracted with 29 CMHCs to provide covered services designated as medically/psychologically necessary.

Prior to July 1, 1997, the CMHCs were compensated based upon the following language from the provider agreement between TBH and the CMHCs:

For Enrollees assigned to Provider (CMHC), payment will be 100% of net premium, defined as gross premium received by TBH from Payor Plan (TennCare Partners Program) less premium tax and administration fees, less any payments for fee-for-service care, subcapitation arrangements, or direct funding agreements for services provided to Enrollees assigned to Provider and eligible for payment under Payor Plan . . . For Enrollees not assigned to Provider, but eligible for payment under Payor Plan, Provider will be reimbursed in accordance with fee schedule.

Under this contracted methodology, the CMHCs act as care coordinators responsible for arranging the behavioral health care needs of their assigned participants. The CMHCs' assignment of priority and basic participants and their associated monthly capitation received from TBH is determined by each enrollee's zip code. From the assigned participants capitation, premium tax of 1.75% payable to the State of Tennessee and 10% administration fees payable to TBH and MBCT are subtracted. The remaining 88.25% of net capitation is available for the payment of mental health and substance abuse services. The CMHCs' monthly payment for participants is dependent on the behavioral services used by the assigned participants for fee-for-service items, subcapitation arrangements contracted by TBH, and grant payments.

Fee-for-service items include behavioral health claims submitted by providers. The claims are paid by TBH based on either a fee schedule or per diem rate. Because there is a delay between the service and the submission and payment of claims, estimates are used to determine the incurred but not reported claims (IBNR) for each month. TBH calculates the IBNR for all enrollees and then allocates the amount to the individual CMHCs based on their percentage of enrollment. The IBNR amounts directly reduce the monthly payments to the CMHCs for assigned participants.

The previous report by the Division of State Audit for the period July 1 through December 31, 1996, noted TBH made errors in the calculation of payments to the CMHCs under this methodology. Also, the contract methodology did not allow the CMHCs to manage care, but they assumed the burden of financial risk.

The state informed TBH on April 18, 1997, that risk contracts with the CMHCs, although assumed to be allowable through a contractual process, leave in doubt the stability of the services required by the priority population which the TennCare Partners program is designed to serve. The state has prepared amendments to the TennCare Partners program contract with TBH to prohibit the passing of total financial risk to contractors or subcontractors without giving them commensurate management and control opportunities.

From July 1 through October 14, 1997, TBH continued to make monthly cash payments under the previous method but would perform a reconciliation based on fee-for-service claims received from the CMHCs.

After October 15, 1997, the CMHCs are paid a fixed case rate of \$110 per assigned enhanced member. TBH has reached settlements as of June 30, 1998, with all but one CMHC for contract payment disputes.

TBH has initiated coordination agreements with assigned managed care organizations. The managed care organizations have contracted with primary care physicians to provide a portion of mental health services that would have been provided by the BHO. Additionally, TBH has contracted with Quality Transportation, Inc., to provide transportation services and with Promark to provide pharmacy services to participants statewide.

## **ANNUAL AND QUARTERLY STATEMENT REPORTING**

As a BHO, TBH files annual and quarterly statements with the Tennessee Department of Commerce and Insurance. The department uses the information filed on these reports to determine if the behavioral health organization meets the minimum requirements for statutory reserves. The statements are filed on a statutory basis of accounting. Statutory accounting differs from generally accepted accounting principles because “admitted” assets must be easily converted to cash to pay for outstanding claims. “Non admitted” assets such as furniture, equipment, and prepaid expenses are not to be included in the determination of plan assets and should be reduced from equity.

As of December 31, 1997, TBH reported \$32,357,887 in admitted assets, \$23,727,596 in liabilities, and \$8,630,291 in equity on its annual statement. TBH reported total revenues of \$133,731,512 and total expenses of \$133,507,190, producing a net income of \$1,585 for the period January 1 through December 31, 1997. Revenue comprises \$132,676,666 in capitation fee payments from TennCare, \$865,970 in investment income, and \$188,876 in miscellaneous income. The plan reported \$117,143,140 in mental health and substance abuse services and \$16,586,787 in administrative expenses. Premium taxes paid to the State were reported as \$2,213,334. Mental health and substance abuse services represent 88% of capitation fee payments from TennCare, and administrative expenses less premium taxes represent 10.8% of capitation fee payments from TennCare. TBH reported a restricted deposit of \$1,000,000 to satisfy requirements of the TennCare Partners Program contract.

As of June 30, 1998, TBH reported \$35,041,611 in admitted assets, \$28,366,298 in liabilities, and \$6,679,313 in equity on its quarterly statement. TBH reported total revenues of \$75,827,868 and total expenses of \$83,832,489, producing a net loss of \$8,004,621 for the period January 1 through June 30, 1998. Revenue comprises \$75,437,790 in capitation fee payments from TennCare, \$196,001 in investment income, and \$194,077 in miscellaneous income. The plan reported \$75,849,735 in mental health and substance abuse services and \$7,982,755 in administrative expenses. Premium taxes paid to the State were reported as \$1,280,259. Mental health and substance abuse services represent 100.1% of capitation fee payments from TennCare, and administrative expenses less premium taxes represent 8.8% of capitation fee payments from TennCare. TBH reported a restricted deposit of \$1,600,000 to satisfy requirements of the TennCare Partners Program contract.

## **SCOPE OF THE EXAMINATION**

Our examination covers certain financial-related requirements of the contract between the state and TBH for the period January 1, 1997, through June 30, 1998. The requirements covered are referred to under management’s assertions specified later in the Independent Accountants’ report. Our examination does not cover those portions of the contract concerning quality of care, clinical, and medical requirements.

## **PRIOR FINDINGS**

The previous review of Tennessee Behavioral Health, Inc. (TBH), for the period July 1 through December 31, 1996, included the following findings:

**1. Failure to maintain minimum equity requirements and positive working capital**

TBH failed to meet minimum equity and working capital requirements. As of December 31, 1996, TBH had a review-adjusted equity of \$253,279.

**2. Errors in payments and contractual discrepancies with community mental health centers**

Errors were discovered in the calculation of payments to the Community Mental Health Centers (CMHCs). Also, the community mental health centers were charged for services rendered to their assigned recipients even though they had little input in directing that care.

**3. Deficiencies in annual statement reporting**

TBH did not file its annual statement in the requested format. Administrative expenses were improperly reported on the annual statement. Receivables over 90 days were incorrectly reported as assets readily turned to cash.

**4. Improper denial of priority member benefits**

TBH improperly denied priority members mental health and substance abuse services. Copayments were incorrectly calculated for enhanced members.

**5. Judicial claims are denied**

TBH inappropriately denied court ordered services for individuals who were not participants in the TennCare Partners Program.

**6. Deficiencies in the authorization system**

TBH's method of transferring authorizations from a subcontractor caused delays in the availability of authorizations on TBH's claims processing system. TBH improperly denied claims for "no authorization" when a valid authorization existed.

**7. Deficiencies in claims processing**

TBH has not fulfilled contract reporting and processing efficiency requirements. Errors were discovered in the payment, denial, and copayment calculation of mental health and substance abuse claims. An explanation of benefits was not provided to uninsured members when a copayment calculation was required. TBH did not track outpatient mental health benefits for basic participants in order to perform reassessments.

**8. Deficiencies in encounter data reporting**

TBH inadequately reported encounter data required by contract: the encounter data did not include all claims payments, and monthly summary reports were not submitted timely.

#### **9. Lack of coordination with TennCare managed care organizations**

TBH did not coordinate with the TennCare managed care organizations as required under their coordination agreements. No action was taken to address upper limits on coinsurance due from recipients.

Findings 1, 2, 4, 5, and 6 have been satisfactorily remedied. Findings 3, 7, 8, and 9 will be repeated in the current report (see the Findings and Recommendations section of this report).

### **SUBSEQUENT EVENTS**

Subsequent material events and correction of errors discovered by the Division of State Audit will affect the annual statement reporting for the year ended December 31, 1997, and the quarterly statement reporting for the period January 1 through June 30, 1998. The following adjustments were made by the Division of State Audit to reported equity at December 31, 1997:

- Adjustments by the independent public accountant of \$2,215,000 related to payables due to regional mental health institutes and profit sharing were accepted by the Division of State Audit.
- The settlement with the State of Tennessee for payments to the regional mental health institutes ultimately was an additional \$6,300,000 underpaid.
- Premium tax payable was understated \$98,542.
- Revenue for the forensics contract with the State of Tennessee was understated \$600,000.

The effect of these adjustments will decrease reported equity from \$8,630,291 to \$616,749 as of December 31, 1997. TBH's minimum net worth requirement at December 31, 1997, was \$3,206,954 per the TennCare Partners contract, Section 3.3.2.1.

The following adjustments were made by the Division of State Audit to reported equity at June 30, 1998:

- Capitation fee payments from TennCare were understated \$71,360.
- Accrued interest receivable was understated \$773.
- Mental health and substance abuse payables were overstated by \$1,228,320.
- Premium tax payable was understated \$80,040.
- Because of deficiencies of case management reporting by CMHCs, the Bureau of TennCare permanently retained the 10% withholds from capitation payments for January and February 1998, totaling \$2,208,986. In August and September 1998, TBH recouped this amount from

the capitation payments it makes to the CMHCs. The effect of these events is to decrease premiums earned and CMHC capitation expense by \$2,208,986, resulting in no effect to equity.

- Receivables to related parties of \$361,023 and revenue accrued for the forensic contract of \$200,000 were improperly included as admitted assets on the quarterly statement.

The effect of these adjustments will increase reported equity from \$6,679,3138 to \$7,338,973 as of June 30, 1998. TBH's minimum net worth requirement at June 30, 1998, was \$6,633,833 per the TennCare Partners contract, Section 3.3.2.1.

## **Independent Accountants' Report**

November 19, 1998

The Honorable Don Sundquist, Governor

and

Members of the General Assembly

State Capitol

Nashville, Tennessee 37243

and

The Honorable John Ferguson, Commissioner

Department of Finance and Administration

First Floor, State Capitol

Nashville, Tennessee 37243-0285

Ladies and Gentlemen:

We have examined management's assertions, included in its representation letter dated November 19, 1998, that Tennessee Behavioral Health, Inc., complied with the following requirements during the year ended December 31, 1997, and for the period June 1 through June 30, 1998.

- The organization is in compliance with the minimum equity requirements as of June 30, 1998 as specified in the contract with the state.
- The organization has complied with its contractual duty to provide certain member services to its participants such as membership cards and provider directories.

As discussed in management's representation letter, management is responsible for ensuring compliance with those requirements. Our responsibility is to express an opinion on management's assertions about the organization's compliance based on our examination.

Our examination was made in accordance with standards established by the American Institute of Certified Public Accountants and, accordingly, included examining, on a test basis, evidence about Tennessee Behavioral Health, Inc., compliance with those requirements and performing such other procedures as we considered necessary under the circumstances. We believe that our examination provides a reasonable basis for our opinion. Our examination does not provide a legal determination on Tennessee Behavioral Health, Inc., compliance with specified requirements.

Our examination disclosed the following material noncompliance applicable to Tennessee Behavioral Health, Inc.:

- The organization did not comply with contractual claims processing requirements.
- The organization did not comply with contractual reporting requirements.
- The organization did not comply with contractual requirements concerning its agreements with subcontractors and providers.
- The organization did not properly file the quarterly and annual statements with the state, according to National Association of Insurance Commissioners (NAIC) guidelines.
- The organization was not in compliance with the minimum equity requirements as of December 31, 1997, as specified in the contract with the state.
- The organization has not complied with its contractual duty to provide certain member services to its participants such as the documentation and resolution of complaints and appeals.

In our opinion, except for the material noncompliance described above, management's assertions that Tennessee Behavioral Health, Inc., with the aforementioned requirements for the year ended December 31, 1997, and for the period January 1 through June 30, 1998, are fairly stated, in all material respects.

This report is intended solely for the use of the Tennessee General Assembly and the Tennessee Department of Finance and Administration. However, this report is a matter of public record and its distribution is not limited.

Sincerely,

Arthur A. Hayes, Jr., CPA, Director  
Division of State Audit

AAH/pn

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## FINDINGS AND RECOMMENDATIONS

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### 1. Deficiencies in the claims processing system

#### Finding

Tennessee Behavioral Health, Inc., (TBH) has not fulfilled contract reporting and efficiency requirements. Fifty claims were selected for testing for mental health and substance abuse services provided from January 1, 1997, through June 30, 1998, and revealed the following:

- a. TBH's denial of four claims was improper:
  - One emergency room claim was denied because the emergency room (ER) record was not attached to the claim. When the ER record is received, the claim is paid without review of the ER record. The attachment of the ER record is not a requirement for payment of ER claims in TBH's provider manual. ER claims that were denied for no ER record attachment were improperly denied.
  - One claim was denied for member not eligible because the dates of service were supposedly outside the member's effective dates of coverage. However, the dates of service were in the member's effective dates of coverage per TennCare's eligibility system.
  - One claim was denied because TBH needed a complete provider package for the attending physician. TBH was unable to provide documentation that the date on which they received the completed provider package was after the receipt of the claim.
  - One claim was correctly denied, but the explanation communicated to the mental health and substance abuse provider was incorrect.
- b. Seven claims were paid incorrectly:
  - One claim paid on a fee-for-service basis incorrectly because the service was capitated. This claim was later reversed and reprocessed correctly.
  - One claim was paid to the wrong mental health and substance abuse provider.
  - Two electronic claims were paid; however, TBH could not determine the provider specialty. In order for TBH to correctly price these claims, the provider specialty must first be determined.
  - One claim paid the mental health and substance abuse provider twice for the same service.

- Two pharmacy claims were selected for testing. TBH was unable to provide details on pricing and payment amounts. TBH does not verify or have the ability to confirm that the pharmacy subcontractor has paid the correct amounts.
- c. One claim incorrectly charged the member a copayment. No copayment was required since one service was covered under capitation and the other service was denied.
  - d. Uninsured participants who were required to pay copayments were not provided an explanation of benefits (EOB). An EOB is a written communication to the TennCare member concerning any amounts that the participant may owe the mental health and substance provider.
  - e. TBH did not accumulate participants' out-of-pocket expenses for the purpose of not exceeding annual and lifetime limits.
  - f. TBH did not coordinate with the managed care organizations for out-of-pocket limits for its participants. As a result, TennCare participants could exceed their annual out-of-pocket limit because both the BHO and the MCO can charge a copayment.
  - g. TBH has not met claims processing requirements specified by the TennCare Partners contract. Claims submitted by providers for mental health and substance abuse services were not always processed within the 60-day requirement. Also, TBH did not pay or deny 95% of the clean claims tested within the 30-day requirement, with the remaining 5% of the clean claims to be paid or denied within another ten calendar days. Of the 50 claims, 47 were clean claims with the following lags:
    - 33 claims within 30 days (70.21%),
    - 5 claims within 31 to 40 days (10.64%),
    - 5 claims within 41 to 60 days (10.64%), and
    - 4 claims over 60 days (8.51%).

Section 3.13.2 of the TennCare Partners contract with TBH states,

The CONTRACTOR shall pay or appropriately deny within thirty (30) calendar days of receipt ninety-five percent (95%) of all clean claims submitted by contract and non-contract providers. . . . Thereafter, the CONTRACTOR shall pay the remaining five percent (5%) of clean claims within ten (10) calendar days. The CONTRACTOR shall also process within sixty (60) calendar days of receipt all claims submitted by contract and non-contract providers.

TBH does not track outpatient visits for basic participants for purposes of assessments as required by Section 2.2.2.2.3 of the contract. Assessments are required when a basic participant reaches 40 outpatient mental health benefits in a calendar year. TBH relies upon the CMHCs to perform assessments. However, the CMHCs cannot be expected to track all outpatient visits since participants may access more than one mental health and substance abuse provider.

Because of the inaccuracies and inefficiencies of the claims processing system, TBH has not fulfilled claims processing requirements of the TennCare Partners contract. The errors and delays in claims processing have jeopardized the stability of the TennCare Partners Program. Duplicate payments ultimately decrease the amounts available to be paid to the CMHCs. Mental health and substance abuse providers have experienced significant financial and administrative problems caused by TBH's inability to process claims correctly.

### **Recommendation**

TBH should adhere to contract reporting requirements and processing efficiency requirements for claims processing. Emergency room claims should not be denied for lack of ER record attachment, and claims for eligibility should not be denied when the dates of service are within the member's effective dates of coverage. In addition, denial reasons should appropriately reflect the reason for denial. Services covered under capitation should not be paid as fee-for-service. Claims should be paid to the mental health and substance provider listed on the claim, and the claims processing system should be updated to recognize the provider specialty on electronic claims. TBH should have the ability to verify that the pharmacy subcontractor has correctly processed claims. Co-payments should not be charged to participants if the services are capitated or denied, and an explanation of benefits should be provided to uninsured participants when a co-payment is required. TBH should update the claims processing system to ensure duplicate payments do not occur, and TBH should track outpatient mental health benefits for basic participants in order to perform assessments.

### **Management's Comment**

Because the current Tennessee Behavioral Health Management staff does not have access to the claims or a portion of the authorization data used for claims processing for the audit period, we are not making any comments on the improperly processed claims. We would like to state that since August 3, 1998, Magellan Behavioral Health's claims shop has been processing Tennessee Behavioral Health's claims. Claims are being processed in an average of five (5) days. There have been very few concerns expressed by providers about either timely or accurate payments. As an added benefit to our providers, we are now doing daily check writes as opposed to weekly. Tennessee Behavioral Health works one-on-one with any provider who has claims questions or problems.

Under the new ownership, no co-pays are being collected and all members will receive an EOB.

## **2. Inaccurate annual and quarterly statement reporting**

### **Finding**

The following deficiencies in financial reporting were noted on the annual statement of TBH for the year ended December 31, 1997:

- The independent accountant made the following adjustments to equity: payables due to regional mental health institutes were increased \$4,000,000, and profit sharing adjustments were increased \$1,785,000.
- The settlement with the State of Tennessee for payments to the regional mental health institutes ultimately was an additional \$6,300,000 underpaid.
- Premium tax payable was understated \$98,542.
- Revenue for the forensics contract with the State of Tennessee was understated \$600,000.

The following deficiencies in financial reporting were noted on the quarterly statement for the period January 1 through June 30, 1998:

- Capitation fee payments from TennCare were understated \$71,360.
- Accrued interest receivable was understated \$773.
- Mental health and substance abuse payables were overstated by \$1,228,320.
- Premium tax payable was understated \$80,040.
- Because of deficiencies in case management reporting by CMHCs, the Bureau of TennCare permanently retained the 10% withholds from capitation payments for January and February 1998, totaling \$2,208,986. In August and September 1998, TBH recouped this amount from the capitation payments it makes to the CMHCs. The effect of these events is to decrease premiums earned and CMHC capitation expense by \$2,208,986, resulting in no effect to equity.
- Receivables to related parties of \$361,023 and revenue accrued for the forensic contract of \$200,000 were improperly included as admitted assets on the quarterly statement.

Section 3.13.1 of the TennCare Partners contract with TBH states that

The CONTRACTOR shall establish and maintain an accounting system in accordance with generally accepted accounting principles. The accounting system shall maintain

records pertaining to the tasks defined in the CONTRACT and any other costs and expenditures made under the CONTRACT.

As a result of the inaccurate annual and quarterly statement reporting, equity is overstated \$8,013,542 as of December 31, 1997, and understated \$659,660 as of June 30, 1998. The Department of Commerce and Insurance and the Department of Mental Health and Mental Retardation cannot adequately assess the effectiveness of the TennCare Partners Program because of the inaccuracies in annual and quarterly statement reporting.

### **Recommendation**

TBH should accurately file the annual and quarterly statements. Receivables which exceed 90 days or that have uncertain collectibility should not be included as admitted assets. Premium taxes should be reported by applying the appropriate rate to premium revenue. Interest income should reflect interest earned as of the filing period of the statement, and revenue should be reported in the period it is earned.

### **Management's Comments**

Management did not respond to this finding.

## **3. Deficiencies in encounter data reporting**

### **Finding**

TBH inadequately reported encounter data required by the TennCare Partners contract. Encounter data, a record of mental health and substance abuse services provided to enrollees, is necessary for evaluation of quality of care and access to TennCare Partners services. The following deficiencies were discovered for encounter data reporting:

- For three claims, not all of the diagnosis codes were reported as encounter data. The list of required encounter data elements includes up to five diagnosis codes.
- For eleven claims, an incomplete diagnosis code was reported as encounter data. The incomplete diagnosis code does not fully report the specific mental health or substance abuse diagnosis.

Section 3.12.5 of the TennCare Partners contract with TBH states

The CONTRACTOR shall furnish to TennCare information regarding individual encounters (individual units of service provided to Participants).

Encounter information will be submitted for all covered services as listed in Section 2.6 This information shall be reported in a standardized format as specified by TDMHMR and transmitted electronically to TennCare on a basis specified by TDMHMR and the Bureau of TennCare. The minimum data elements required to be provided are identified in Attachment E.5 of the CONTRACT.

### **Recommendation**

TBH should correctly report encounter data as specified in The TennCare Partners contract.

### **Management's Comment**

This should be corrected under the new ownership and management.

## **4. Deficiencies in provider agreements**

### **Finding**

TBH did not comply with the Bureau of TennCare's requirements for provider agreements. The provider agreements did not contain all requirements specified in Section 3.9.2 of the contract between TennCare and TBH.

Language describing the following requirement is excluded or deficient in contracts between TBH and its medical providers:

- Section 3.9.2.33: "State that the provider shall not receive more than one hundred five percent (105%) of the rate negotiated between the CONTRACTOR and provider as the final payment . . ."
- Section 3.9.2.4: "Specify the provider submit to the CONTRACTOR the necessary information so that the CONTRACTOR can determine the average costs pursuant to Section 3.12.7.4."
- Section 3.9.2.44: "No agreement executed between the CONTRACTOR and a provider shall require the provider to assume financial risk for the provision of services which are not directly or indirectly furnished by the provider . . ."

### **Recommendation**

TBH should comply with the TennCare Bureau's requirements regarding provider agreements by ensuring that the provider agreements contain all items specified in Section 3.9.2 of the TennCare contract.

### **Management's Comment**

This should be corrected under the new ownership and management.

## **5. Deficiencies in complaints and appeals procedures**

### **Finding**

TBH's documentation and resolution of participants' complaints and appeals were determined inadequate.

- a. The following deficiencies were discovered for 10 appeal files selected for testing:
  - Two appeal files lacked documentation to support the denial of service.
  - One appeal file lacked documentation regarding final resolution of the appeal.
  - TBH was unable to produce one appeal file selected for testing.
- b. The following deficiencies were discovered for 10 complaint files selected for testing:
  - Five complaint files each regarding late pickup by the transportation vendor, lacked documentation regarding final resolution of the appeal. TBH forwarded the complaints to the vendor but did not follow up on their final resolution.
  - One complaint file did not indicate a date of final resolution.

Section 3.5.A.8 of the TennCare Partners contract with TBH states that the

Decision of the BHO shall be in writing and include a description of the appeal, the basis for the decision and identification of any documents reviewed and relied upon in the appeal decision.

Section 3.5.B.7 of the TennCare Partners contract with TBH states,

Decision of the BHO shall be in writing and include a description of the complaint, the basis for the decision and identification of any documents reviewed and relied upon in the complaint decision.

### **Recommendation**

TBH should properly document participants' complaints and appeals. Documentation should identify any documents reviewed and relied upon in the final resolution of the complaint or appeal.

### **Management's Comment**

This should be corrected under the new ownership and management.